Jul. 28th, 2023

TOYOTA BOSHOKU CORPORATION

Summary of Q&A at FY2024 1st Quarter Financial Results

Q 1 : Please let us know if there were any one-off factors in Q1 results.

A 1 : There was about JPY3.5 billion in profit as one-off items in Q1 which includes about JPY2 billion in profits associated with tooling costs and several billion yen from some retroactive price settlements. In terms of tooling costs, they were JPY0.5 billion in Japan, JPY0.6 billion in the US, and JPY0.6 billion in China as break down by segment. Excluding these one-off items, the operating profit for Q1 would have been about JPY18.5 billion.

Q 2 : I believe you have aligned seat production volume for Toyota business to be about 10 million units as full-year forecast. However, it seems your profit forecast for Q2 and H2 looks conservative. Are there any risks? Please introduce the rationale behind these revisions.

A 2 : For the production volume for Toyota business, H1 reflects actual results and the most recent indications, while H2 remains at the level announced at the beginning of the period since there is no detailed information for H2 yet. In terms of exchange rates, the actual rate for Q1 was JPY137 to the US dollar. We maintain the initial forecast of JPY125 to the US dollar for Q2 and onwards. As for the model mix, it has improved recently, but we have not factored in any improvement outside of Japan for H2. Therefore, while Q1 was JPY22.1 billion in operating profit, Q2 is projected to be JPY14.8 billion, indicating a slight decrease.

Q 3 : I believe there have been discussions across Toyota group companies about the unwinding of cross-shareholdings. If Toyota decides to sell your shares for instance, would you consider not buying back your own shares to increase liquidity? Also, in conjunction with the unwinding of cross-shareholdings, is there a discussion about how the Toyota group companies holds shares as a whole? Also about the minority shareholders' interests, are there discussions about organizing these holdings in a way that leaves more profits to your company? I would appreciate it if you could tell me the current discussion about this unwinding of cross-shareholdings.

A 3 : Our company has less than 1% of our consolidated net assets as cross-shareholdings, so we judge that they do not have a major impact on capital efficiency. However, in accordance with the principles of the Corporate Governance Code, we intend to verify the purpose of these holdings and have discussions including directors. We have already been gradually selling off stocks of financial institutions and specific stocks that have lost their significance in terms of holding. We have recognized that companies within the Toyota group have mentioned a review of their cross-shareholdings. Regarding the buyback of our own shares, we would like to fully understand the situation from various perspectives and respond accordingly. The cross-shareholdings of subsidiary stocks would depend on how those businesses progress. I think there will be a possibility for promoting discussion where the historical significance of the joint venture has faded. However, at this point, we do not have any specific projects or plans to share.

Q 4 : For the profit in North, Central, and South America, you made a solid profit in Q1, but it seems like you are anticipating a loss again in Q2. Is this due to the one-off profit? Also, in H2, you mentioned a profit of around JPY1 billion. Is this because there are conservative elements? Could you explain the current profit generation and actual strength?

A 4 : The operating profit was JPY1.9 billion, and the annual forecast is currently JPY1 billion, indicating a decrease of about JPY0.9 billion. This is considering the impact of inflation accounting in Argentina which we have not conducted in our plan at the beginning of the period. We have incorporated an accounting expense of about JPY3.6 billion due to this impact. We would be looking at a profit of around JPY4.6 billion, if this were not the case.

Q 5 : I understand that China is the region with the most risk as a business entity. You made a solid profit in Q1 and your annual production volume plan is about the same as last year. How should we anticipate the risk here in the future? Have you been viewing H2 more conservatively from the beginning, and will there be no change from that level? Could you please explain your thinking?

A 5 : We have been anticipating a certain level of production reduction risk in China from the beginning of the period. We believe that the current market trends have not significantly deviated from our initial public announcement level. About the outlook for profit, there is an impact from the way we've set our exchange rate assumptions. However, as Chinese OEMs continue to advance their responses to BEVs, we think this could impact our customers and our production. Therefore, we want to accurately grasp customer trends and market movements in cooperation with our various bases in China, and continue to diligently track these trends.

Q 6 : Regarding Toyota's production volume, are you basing it on about 10.1 million units annually for H1 of the year, but still keeping H2 as per the original plan, so it doesn't reach 10.1 million units annually?

A 6 : H1 is based on a level close to Toyota's guidance of 10.1 million units since we have recalculated the global figures based on the guidance we received from Toyota.

Q 7 : My question is about whether you've accurately reflected the model mix in this upward revision. I think there have been improvements up to the present, but is there a possibility for further improvement in the model mix for H2 of the year from this plan? It seems that the operating profit for the Japan region doesn't change much between Q1 and Q2. I can see potential upside not only in H2 of the year, but also in Q2 by the improvement in the model mix. What do you think about this?

A 7 : Currently, the model mix in Japan, as well as the grade mix, has significantly improved. Our production volume plan for H2 in Japan is based on 10% decrease in Toyota's annual plan and we are forecasting an improvement in the composition throughout the year. Therefore, if the volume increases, the benefit from the mix for the additional volume will also increase. As for overseas, we have not incorporated an improvement in the mix for H2 of the year, so if we can increase the volume overseas, the increase in volume and the improvement in the mix will doubly contribute to the profit.

Q 8 : I see that your annual plan is now about JPY500 million lower than the previous one due to market prices. Could this negative revision be due to a larger impact from raw material prices caused by increasing in the production volume, or due to other costs raising? Could you please explain the impact from the market prices?

A 8 : In terms of rising market prices, while we initially projected a figure of JPY13.6 billion, we believe it may be curbed to around JPY12.8 billion. As for compensatory actions, initially, we anticipated approximately JPY9 billion. However, at the moment, we are not quite reaching this figure, which is leading to the difference. Nevertheless, we are continuing discussions with our customers for compensations.

Q 9 : Toyota is planning to accelerate electrification significantly. How large of a scale should we expect for motor cores and other components in this area, say, by 2025? Is there possibility to accelerate development in light of Toyota's announcements? Can we expect motor cores to be a growth business with the volume and scale becoming larger and you are expanding capacity to meet this growth in the future?

A 9 : We anticipate that the demand for motor cores will continue to increase in the market. We are improving our technology and striving to expand the sales of motor cores. Not just in Japan, but also in regions where the BEV market is expected to expand, we aim to seize every opportunity for expansion and production. We are committed to this endeavor. Currently, operating rate for our existing equipment is quite high. Therefore, if we are fortunate enough to receive more orders in the future, we would like to consider new investments.

Q10 : About this year's capital investments, the progress in Q1 appears to be quite slow. Please let me know what is happening and what kind of investments were included in the plan.

A10 : For this fiscal year, the total of about JPY82 billion capital investment is planned, which is larger than any investment scale we've experienced before. These involve investments in land and buildings at a global level, such as capacity increases in China, new factories in the Americas, and new logistics bases in Japan. In addition to these, there are significant numbers related to carbon neutrality and digital transformation or DX. In Q1, the actual result was JPN8.9 billion compared to the plan of JPN13 billion, about JPY4 billion has been reduced. This includes items which we have revised the consumption timing from Q1 to Q2 onward, such as solar farms abroad related to carbon neutrality due to the slight delay in government approvals in this regard. We will naturally seek to improve efficiency and to enhance the accuracy of realized amount.

Q 11: My question is related to the cash position that I'm interested in understanding what kind of ideal scenario you envision in this regard. In order to gauge the level of flexibility your company can maintain when confronting an unforeseen situation in the future, I'd appreciate it if you

could explain about financial targets such as a baseline necessary level of cash.

A11 : We currently hold around JPY260 billion in cash and cash equivalents. On the other hand, our interest-bearing liabilities, such as corporate bonds, are around JPY150 billion. Therefore, we consider our net cash position to be positive, at approximately JPY100 billion. Considering our capital investments for this fiscal year are slightly over JPY80 billion, a level of investment we haven't seen in the past, we intend to ensure a sufficient balance that exceeds depreciation. Furthermore, while we haven't been able to concretize our plans up to 2025 or 2030 yet, we are eager to continue advancing with investing and conducting research and development in various new businesses and entering new fields, while ensuring adequate funding and financial support for the growth of our company.

Q12 : As my understanding, you're thinking of maintaining a net cash position of about JPY100 billion as a guideline. For instance, if you were to buy back your own shares, would you be able to control it around that level?

A12 : Share buybacks have been a relatively low priority for us in the past. However, as we consider our cash position and how to improve our capital efficiency, we've heard that various companies within the Toyota Group are beginning to move in that direction. We would like to prepare thoroughly so as not to miss any opportunities.

Q13 : Looking from a medium-to-long-term profit projection for motor core business, would it be appropriate to consider the profit margin of Mitsui High-tec's motor core business, which is roughly 7% to 10%, as a benchmark? It seems to me that compared to methods such as riveting or adhesive bonding, your company's new technology could potentially yield a higher profit margin. Could you comment on this within possible limits?

A13 : This is an extremely competitive area, so we are setting goals for technological and cost advantages over not only Mitsui High-tec but also other companies that are producing motor cores. These advantages are part of our targets for development, production, and investment scale. As we continue to expand sales in the future and as new investments begin, we aim to leverage our superior production technology even further and continue refining our development and production capabilities.